EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
PART – II EXAMINATION IN BACHELOR OF BUSINESS ADMINISTRATION – 1998/1999 (EXTERNAL DEGREES - MARCH – 2005)
BBA – 301 MANAGERIAL ACCOUNTING

ANSWER ALL QUESTIONS　　　　TIME : 03 HOURS

Q1. XY Ltd. Manufactures two products and it has recently introduced a standard costing system. The standard cost data is as follows.

COST ELEMENT / PRODUCT	PRODUCT a	PRODUCT B
Material	P - 2 Kgs @ Rs.5 per Kg	P - 4 Kgs @ Rs.5 per Kg
	Q - 4 Kgs @ Rs. 7.50 per Kg.	Q - 2 Kgs @ Rs.7.50 per Kg
Labour	Skilled - 2 hours @ Rs.10/=	Skilled - 1 hour @ Rs.10 per hour
	Unskilled - 4 hours @ Rs.7.50/=	Unskilled - 2 hours @ Rs.7.50 per hour
Variable Overheads	Rs.10 per hour of unskilled and skilled labour hours	Rs.10 per hour of skilled and unskilled labour hours
Fixed Overheads	Rs.15 per hour of skilled labour only	Rs.15 per of skilled labour only
Profit Margin	1/9 of standard full cost	Rs.15 per unit

Budgeted quantities for August 2004 were as follows:

	A	B
Production	3,000.00	5,000.00
Sales	2,500.00	4,000.00

Budgeted fixed production overhead for a month is Rs.165,000.00.

In this operation P is introduced at the beginning of the process and there are no process losses. Labour and overheads occur evenly throughout the process. Q is introduced only at 50% completion stage and again there are no process losses.

It is the policy of the firm to exclude all overheads when valuing work in progress if work in progress is less than 60% complete and to include all overheads if work in progress is more than 60% complete.

The actual data gathered for the month of August 2004 was as follows:

1. Materials

Stocks as at August 1, 2004

P - 2,000 Kgs

Q - 1,000 Kgs

Purchases in August 2004

P - 30,000 Kgs at Rs.6/= per Kg

Q - 25,000 Kgs at Rs.7/= per Kg

Stocks as at August 31,2004

P - 3,000 Kgs

Q - 2,000 Kgs

The material price variances is calculated at the time of purchasing the raw materials.

2. Work in Progress

As at August 1, 2004

A - 200 units (40% complete)

B - 500 units (80% complete)

As at August 31, 2004

A - 500 units (40% complete)

B - 1,000 units (20% complete)

3. During August 2004, 3500 units of A & 4500 units of B have been transferred to finished goods stocks

4. Labour

Skilled - 12,000 hours at Rs.12/= per hour

Unskilled - 22,000 hours at Rs.7/= per hour

5. Variable overhead incurred - Rs.350,000/=

6. Fixed overhead incurred - Rs.175,000/=

7. During the month 3000 units of A and 4500 units of B have been sold at Rs.210/= and Rs.125/= per unit respectively.

You are required to:

1. Calculate the standard cost and selling price per unit.

2. Value of opening and closing work in progress

3. Calculate the following variances

- Material (Price & Usage)
- Labour (Rate & Efficiency)
- Variable overhead (Expenditure & Efficiency)
- Fixed overhead (Expenditure & Volume)
- Sales variances (Price & Volume)

(40 Marks)

Shown below is an extract from next year's budget for a company manufacturing three different products in three production departments.

Products	A	B	C
Production	4000 units	3000 units	6000 units
Direct labour requirements :	7/= per unit	4/= per unit	9/= per unit
Cutting Department			
Skilled operators	Hours per unit	Hours per unit	Hours per unit
Unskilled operators	3	5	2
Machining department	6	1	3
Pressing department	0.5	0.25	0.33
Machine hour requirements:	2	3	4
Machining department	2	1.5	2.5

The skilled operators employed in the Cutting Department are paid Rs.4 per hour an the unskilled operators are paid Rs.2.50 per hour. All the operators in the Machining and Pressing Departments are paid Rs.3 per hour.

	Production Department			Serive Depratment	
	CUTTING	MACHINING	PRESSING	ENGINEERING	PERSONNEL
Budgeted Total Overheads	154,482	64,316	58,452	56,000	34,[illegible]
Service department costs are to other departments in the following basis					
Engineering services	20%	45%	25%	-	10%
Personnel services	55%	10%	20%	15%	-

The company uses absorption costing system.

Required :

Calculate as equitably as possible the total budgeted manufacturing cost of:

(i) One completed unit of product A and

(ii) One incomplete unit of product B which has been processed by the cutting and machining Departments but which has not yet been passed into pressing Department.

(20 Marks)

The Library Co Ltd Produce a Product A. This Product is processed at A_1, A_2 and A_3 Departments before transferring to stores. At the department of A_3 a by-product arises. The by-product Z is further processed in the department of BP at the cost of Rs.4/= per unit. A distribution and selling cost of Rs.2/= per unit is added to the by-product and sold at Rs.18/= per unit.

COST	PROCESS		
	A_1	A_2	A_3
Normal loss	10%	5%	10%
Unit Scrape Value (Rs)	1	3	5

The following information is for the month of December 2003 out put (units)

Out put unit	A_1	-	17,600
Process	A_2	-	16,800
Process	A_3	-	Output X 14,000 units
Process	BP	-	By product Z 840 units

COST	PROCESS		
	A_1 (Rs)	A_2 (Rs)	A_3 (Rs)
Direct material (20,000 units)	40,000	-	-
Added Material	12,000	25,280	51,440
Direct Wages	10,000	12,000	20,000
Direct Expensives	8,000	12,400	8,160

The Budgeted fixed overheads for the month of December is Rs.168,000/= The overheads are absorbed on the basis of direct wages. There is no opening or closing Working in process.

You are required to prepare :

a A$_1$, A$_2$, A$_3$ and BP process Accounts

b. Abnormal loss Abnormal Gain accounts (22 Marks)

a. A firm which uses cost (full cost) pricing makes 100 each of a range of products J, K, L, M and N each month. The unit costs of the whole range are shown below.

	J	K	L	M	N
	Rs.(00)	Rs.(00)	Rs.(00)	Rs.(00)	Rs.(00)
Direct Materials	10	12	13	16	19
Direct labour	8	9	10	13	13
Variable overhead	4	5	7	9	10
	22	26	30	38	42
Fixed over head	3	4	5	7	8
	25	30	35	45	50
Profit (20%)	5	6	7	9	10
	30	36	42	54	60

Market conditions have moved against the firm and competitors are charging the following prices for the whole range, beginig with J: Rs.21; K: Rs.34; L: Rs.38; M: Rs.51, N: Rs.40;

a. Show how the firm can still compete at the new prices, and earn it self an overall profit of Rs. 20,000 per month producing K,L and M. Explain fully how this can be so.

b. Why is the marginal costing approach not suitable for analyzing long – term decisions? (18 Marks)